SYGNALS

MAY 2015

KEY INDICATORS

		1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS	3 YEARS	5 YEARS
J203T	FTSE/JSE All Share Index	-4.0%	-0.8%	6.2%	8.5%	15.0%	20.0%	17.5%
J200T	FTSE/JSE Top 40 Index	-4.0%	-0.6%	6.2%	6.8%	14.3%	20.1%	17.3%
J210T	FTSE/JSE Resources 20 Index	-5.2%	-6.5%	-3.3%	-21.0%	-4.2%	-0.1%	0.5%
J211T	FTSE/JSE Industrials 25 index	-3.1%	0.6%	8.3%	16.8%	20.8%	30.9%	28.3%
J212T	FTSE/JSE Financials 15 Index	-6.8%	0.0%	8.4%	22.0%	24.0%	25.8%	21.9%
J403T	FTSE/JSE SWIX Index	-4.9%	-0.6%	6.4%	12.5%	17.7%	21.3%	18.9%
J303T	FTSE/JSE CAPI Index	-4.0%	-0.8%	6.3%	8.6%	15.1%	20.1%	17.6%
J253T	SA Listed Property Index	-5.9%	-3.4%	8.2%	31.7%	18.7%	21.4%	20.8%
ALBI	BEASSA All Bond Index	-0.7%	-1.7%	0.2%	9.5%	6.1%	7.9%	9.2%
STeFI	STeFI Index	0.5%	1.6%	3.1%	6.2%	5.8%	5.6%	5.8%
	MSCI World Index in SA Rands	3.4%	5.4%	13.8%	21.5%	23.1%	31.9%	23.7%
	Rand/US Dollar Exchange Rate	3.1%	4.3%	10.1%	15.0%	9.8%	12.7%	9.7%
	Rand/Euro Exchange Rate	1.8%	2.3%	-3.2%	-7.3%	0.9%	8.3%	7.2%
	Headline CPI	0.9%	3.0%	2.6%	4.5%	5.3%	5.5%	5.4%
	PPI	0.9%	3.0%	1.6%	3.0%	5.9%	5.7%	6.3%

"Where there is a desire there is a way. That should be our guiding principle. We would like to be a part of the process that is going on in Great Britain at the moment and we would like to be a constructive partner in this process."

Chancellor Angela Merkel at a press conference after talks with the UK Prime Minister, David Cameron about the UK's continued membership of the EU

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SYGNIA
THE SUM OF ALL THINGS

MARKET OVERVIEW

If investors needed a reminder that markets go down as well as up, May brought just that, as speculation about the timing of US interest rates increases reflected in the gyrating value of the US dollar, while in the eurozone investors sold off bonds in response to the negative bond yields of April.

Disappointing US economic statistics led to speculation that the first interest rate increase might be pushed out beyond 2015, despite the Chair of the US Federal Reserve, Janet Yellen, insisting it will happen this year. Signs of weakness, however, continued to pop up throughout April, with the ISM manufacturing index coming in flat, the flash reading of the Markit manufacturing PMI falling to 53.8 in May, a drop in non-durable goods orders, a fifth straight monthly decline in industrial production figures, falling consumer sentiment and weak retail sales which account for a quarter of US consumer spending. In addition, according to the payrolls processor ADP, the private sector created fewer than 200 000 jobs for two consecutive months for the first time in two years, despite the official unemployment rate dropping to a seven-year low of 5.4%. The brighter spots included rising consumer prices, stronger durable goods orders and a recovering housing market. However, the strong turnaround expected in the second quarter after the sharp -0.7% quarter-on-quarter downturn in the first quarter, is not materialising.

The Chinese economy also continued to run out of steam, with the HSBC/Markit manufacturing PMI turning in its weakest performance in a year at the 48.9 level in April. Both exports and imports declined more than expected. Consumer inflation rose slightly to 1.5% year-on-year on higher food costs, but prices at the factory gate declined faster than expected. China cut interest rates for the third time in six months in a bid to stimulate the economy.

The eurozone economy, on the other hand, showed surprising resilience, with the HSBC/Markit eurozone manufacturing PMI slipping only marginally to 52.0 in April, and the consumer price index coming in flat after four months of deflation. Relative economic data pushed the euro to a two-month high against the US dollar.

The most unexpected event, however, was investors' revolt against negative yields in Europe which led to the sharpest sell-off of government bonds in the past twenty years. €142 billion was wiped off the value of the region's bonds in a matter of days. The sell-off in Europe pushed US Treasuries to five-month lows.

After temporarily strengthening against the US dollar, and upsetting carry-trade punters, the euro weakened again after the ECB committed to taking further action to quash bond yields and boost inflation, potentially flooding the market with more euros. The ECB intends to increase its purchases of euro-area assets in May and June ahead of an expected low-liquidity period in the summer.

Talks between European policy makers and Greece made little progress, although Greece managed to scrounge together €750 million in May to pay its interest bill to the IMF. The next payment of €1.5 billion is due in June.

In a surprise clean majority win the Conservative Party secured a mandate in the UK to govern without a coalition partner and hence to pursue their austerity agenda. This makes a 2017 referendum on continued membership of the EU a certainty. The win was well-accepted by the European markets.

Market volatility continued, with the US Fed adding to concerns by warning that stock markets may be overvalued, and that there could be a sharp jump in long-term rates when the US Fed raises interest rates. However, the widely anticipated minutes from the US Fed's most recent meeting indicated that a June hike remains 'unlikely' due to concerns about weaker US economic growth.

At month-end a rally in the US dollar and the lack of resolution in Greek negotiations spurred broad risk aversion, with emerging market equities and commodity prices bearing the brunt. The sell-off on the JSE was compounded by disappointing domestic first quarter data which showed the economy expanding at a much slower pace than expected.

The gold price rose marginally over the month, mirroring the movements of the US dollar, and ending the month close to where it began at US$1 188 an ounce.

The oil price stayed above US$60 a barrel despite weak Chinese data stoking fears about demand in the face of near-record supply from OECD producers. The oil price has risen by 25% since mid-April on the notion that a supply glut was easing due to a tightening in world production. There was some evidence that lent credence to this as, after 21 weeks of decline in the number of active US rigs drilling for oil, US crude inventories dropped for the first time since early January. Prices were also supported by comments from western diplomats that a nuclear deal with Iran was unlikely by the June 30 deadline. The oil price fell at month end as a resurgent US dollar weighed on the market.

360 DEGREES ROUND THE WORLD

EUROZONE: The EC raised its eurozone growth forecast to 1.5% this year on the positive effects of a weaker euro and unprecedented monetary stimulus. The first quarter GDP in the 19-member eurozone expanded by 0.4% from the previous quarter.

UNITED KINGDOM: The UK recovery is slowing down. The first quarter economic growth came in at its weakest pace in three years at 0.3% quarter-on-quarter. The consumer price index fell by 0.1% in April compared to a year before, the first time the UK has entered deflation since comparable records began in 1989. The Bank of England cut its growth forecasts for the UK economy to 2.5% in 2015 and 2.6% in 2016.

GERMANY: Germany is on track to generate a massive current account surplus of 8.4% of GDP in 2015, a result of the fall in the euro, and the boost to German competitiveness provided by ECB's monetary easing. The country is now the biggest single violator of the eurozone stability rules. Despite that, Europe's largest economy grew at a disappointing quarterly rate of 0.3% in the first quarter.

FRANCE: With cheaper oil and a weaker euro providing some help, the French economy expanded by an unexpected 0.6% quarter-on-quarter in the first three months of the year, beating the eurozone average and most importantly Germany. The IMF has, however, warned France that it needs to get a grip on government spending, reduce its debt levels and tackle chronic unemployment if it wants to grow again.

GREECE: Greece continues to scramble for cash while refusing to reach compromises with its creditors. When Europe and the IMF first agreed to bail Greece out in 2010, the plan was to return the country to growth and bond markets within three years. Instead, after half a decade and €245 billion in promised loans, the two sides have reached an impasse. Although Greece met its debt payments to the IMF in May by borrowing from municipalities and government entities, it needs the EC, ECB and the IMF to agree to unlock further aid. The troika demands tough labour and pension reforms in exchange. Greece continues to refuse.

German Chancellor Angela Merkel and French President Francois Hollande gave Greece until the end of May to reach a deal, but the deadline came and went with no resolution in sight. Meanwhile, Greece needs to find another €1.5 billion to meet its June IMF repayment. By month-end the IMF was openly talking about forcing Greece out of the eurozone.

The EC expects the Greek economy to grow by just 0.5% this year, after its GDP contracted by 0.2% in the first quarter, and 0.4% in the fourth quarter of last year, putting Greece officially back into recession.

DENMARK: The Danish government has proposed getting rid of the obligation for selected retailers to accept payment in cash, moving the country closer to a "cashless" economy. Nearly a third of the Danish population uses MobilePay, a smartphone application for transferring money to other phones and shops.

RUSSIA: Russia announced that it will not sign the United Nations Arms Trade Treaty that requires governments to ensure their exports will not fuel conflicts. The Arms Trade Treaty came into force in December 2014 with 130 countries signing and 67 ratifying the agreement.

JAPAN: Japan's GDP expanded by 0.6% quarter-over-quarter in the first quarter, twice the level of the previous three months and well above expectations. In addition, annual inflation rose for the first time in almost a year by 0.2% year-on-year. The Bank of Japan thus refrained from easing monetary stimulus further. However, the economy is far from being out of the woods yet, with other economic indicators such as trade statistics and household spending disappointing on the downside.

INDONESIA: South East Asia's largest economy, Indonesia, grew at its weakest annual pace since 2009 in the first quarter, delivering 4.7% growth year-on-year. The economy was hurt by a slowing demand for exports and falling oil prices.

INDIA: India has named KV Kamath, a banker, as the first head of a new BRICS development bank. It has been agreed that the bank, which will fund infrastructure projects in developing nations, would be based in Shanghai. It would be headed by an Indian for a first five-year term, followed by a Brazilian and then a Russian.

ZIMBABWE: Zimbabwe has asked for financial support from the West for the first time in more than a decade at a meeting of western diplomats and international lenders. Zimbabwean government officials met western ambassadors and representatives from the IMF, the World Bank and African Development Bank in Harare to discuss direct budgetary support.

NIGERIA: A crippling fuel shortage has brought Africa's biggest economy, Nigeria, to a virtual standstill. Nigeria's biggest banks, mobile and internet operators and airlines had to drastically scale back operations. The crisis was triggered by national fuel marketers who claim they are owed US$1 billion in outstanding payments by government and hence have stopped delivering fuel to depots. The situation was compounded by striking oil tanker drivers. The negotiations reached a conclusion at month-end, but the problems of corruption in the public and private sectors, government mismanagement and an inefficient fuel subsidy system continue.

Despite pumping about 2 million barrels of oil a day, Nigeria has to import more than two-thirds of its domestic fuel requirements because its four refineries are in poor shape. Private investment has been stymied because the government sets the price of petroleum products artificially low. Fuel marketers have long benefited from the broken subsidies system by overcharging the state for fuel they import and often not delivering the product they are paid for, diverting it instead to neighbouring countries for higher profit. Deregulating the market would begin to resolve the problem, but it is likely to meet with fierce resistance from vested interests and a public who believes that cheap fuel is the only service the state provides.

SOUTH AFRICA

The effects of Eskom's load shedding are visibly wrecking what remains of, at best, mediocre growth expectations. President Jacob Zuma has indicated that electricity demand will exceed supply for the next 24 to 36 months.

South Africa's first quarter economic growth plunged to just 1.3% year-on-year as load shedding, weak consumer demand and drought curbed output. Unemployment rose to 26.4%, the highest figure since 2003. Manufacturing activity deteriorated to four-year lows, with the Kagiso manufacturing PMI falling to 45.4 in April. Retail sales grew 2% year-on-year in March, below market expectations and lower than a revised 3.7% expansion in February. Both business and consumer confidence plummeted.

Consumers are in for more bad news as interest rates are likely to increase as inflation rises, fuel prices are on the up and the electricity tariff hikes are yet to be finalised.

The South African Reserve Bank kept interest rates steady as inflation came in at 4.5% year-on-year. The Reserve Bank expects inflation to accelerate in the coming months, and there is a growing expectation of an interest rate hike in June.

On a positive note higher than expected tax revenues and lower government spending helped to narrow the budget deficit to an estimated 4.3% of GDP.

The government struck a three-year wage deal with the public sector which includes a 7% raise in the first year and consumer price inflation plus 1% increases for the following two years. The settlement avoided another bruising nationwide strike.

Moody's said its credit rating for South Africa takes account of the country's power shortages and growth challenges and will probably remain unchanged for the next 12 to 18 months. The rating company downgraded South Africa in November 2014 to Baa2, the second-lowest investment-grade level, and changed its outlook to stable from negative.

ODDS AND ENDS

TICK FOR TOURISM, BLACK MARK FOR HUMAN CAPITAL DEVELOPMENT

South Africa has climbed the ranks of the world's most tourist-friendly countries, coming 48th out of 141 countries in the World Economic Forum's travel and tourism competitiveness index. The WEF ranking puts the country at the top of the sub-Saharan African table, ahead of the Seychelles and Mauritius.

On the flip-side South Africa's dearth of skilled employees and its poor ability to nurture talent through educating, training and employing its people has meant the country came 92nd out of 124 in the WEF's human-capital index. The index ranks economies on how well they are developing and deploying their human capital, and creating workforces which are prepared for the demands of competitive economies.

A LEOPARD DOES NOT CHANGE ITS SPOTS

China's new draft national security law has little to say about traditional security. Instead, it reads more like a Communist Party ideology paper and a call to arms aimed at defending the party's grip on power. The law, together with two other recently published drafts, constitutes the most expansive articulation yet of President Xi Jinping's vision of national security. The laws are aimed at giving the security forces and courts greater leeway in muzzling Chinese civil society and corralling the influence of Western institutions and ideas, which are viewed as a threat.

.....NOT EVER

Regulators around the globe fined banks nearly US$6 billion for rigging the currency markets. In response, the Competition Commission announced an investigation into price fixing in South Africa. A number of local and foreign companies will be investigated, including Investec, Standard Bank, Barclays Africa, BNP Paribas, Citigroup, Barclays Bank, JP Morgan Chase and Standard Chartered.

UPDATE ON SYGNIA LIMITED LISTING

For those who are not aware, Sygnia is planning to list on the main board of the Johannesburg Stock Exchange in October 2015. We are receiving many questions in this regard. In practical terms, more concrete information will be made available to potential investors in August. We do want to make you aware that if you are interested in this IPO, you will need to open an account with Sygnia Securities in order to benefit from lower individual subscription amounts as Sygnia Securities will pool all the smaller subscriptions together to ensure that its clients meet the minimum levels in totality. It will also allow us to recognise "friends and family" investors in terms of IPO allocations. More information will be made available in due course and there is no need to do anything until you receive further communication from Sygnia.

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